



BIRDSBORO-UNION RELIEF ASSOCIATION

BERKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

MARCH 22, 2010 TO DECEMBER 31, 2011



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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 53 P.S. § 895.701 *et seq.* (commonly referred to as Act 205), are properly expended.

The Birdsboro-Union Relief Association, herein referred to as Birdsboro Union Volunteer Firefighters' Relief Association, is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 118 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, it is the responsibility of the volunteer firefighters' relief association to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations, which is or are recognized as providing the service to the municipality. The Birdsboro Union Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2010</u>	<u>2011</u>
Birdsboro Borough	Berks	\$30,958	\$47,822
Union Township	Berks	\$27,331	\$41,803

BACKGROUND (Continued)

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Birdsboro Union Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

Birdsboro Union Fire Department



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. Steven Dragon, President
BIRDSBORO UNION VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Berks County

We have conducted a compliance audit of the Birdsboro Union Volunteer Firefighters' Relief Association pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period March 22, 2010 to December 31, 2011.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was to determine if the volunteer firefighters' relief association received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Birdsboro Union Volunteer Firefighters' Relief Association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws and administrative procedures including the safeguarding of assets. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with those requirements and that we considered to be significant within the context

of the audit objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Birdsboro Union Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Birdsboro Union Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2011, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objective. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objective.

The results of our audit, for the period March 22, 2010 to December 31, 2011, found the Birdsboro Union Volunteer Firefighters' Relief Association, in all significant respects, received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed later in this report. The results of our tests also indicated the Birdsboro Union Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$92,349 and no investments.

Finding No. 1 – Unauthorized Expenditure

Finding No. 2 – Failure to Maintain Surety (Fidelity) Bond Coverage

The contents of this report were discussed with the management of the Birdsboro Union Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

June 28, 2012, except for Finding No. 1,
for which the date is July 9, 2012.

EUGENE A. DEPASQUALE
Auditor General

BIRDSBORO UNION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditure

Condition: The relief association expended \$313 for an insurance premium for an officer's bond policy that was in the name of the former relief association, the Friendship Fire Company No. 1 Relief Association. The Friendship Fire Company No. 1 Relief Association dissolved on August 19, 2010 and the remaining assets were transferred to the newly created Birdsboro Union Volunteer Firefighters' Relief Association. Since the officer's bond policy was not in the name of the Birdsboro Union Volunteer Firefighters' Relief Association, the expenditure was deemed unauthorized.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(12) states:

The funds of any volunteer firefighters' relief association may be spent:

- (12) To secure insurance against legal liability of the volunteer firefighters for loss and expense from claims arising out of performance of official and authorized duties while going to, returning from or attending fires or performing their duties as special fire police.

Cause: Relief association officials were unaware that the officer's bond policy was not in the name of the Birdsboro Union Volunteer Firefighters' Relief Association, therefore, resulting in an unauthorized expenditure per the requirements of Act 118.

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 118. Furthermore, the relief association's cash assets were not safeguarded, as detailed in Finding No. 2 of this report.

However, subsequent to the audit period, on July 9, 2012, the relief association received reimbursement in the amount of \$313 from the affiliated fire department.

Recommendation: We recommend the relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) to aid them in determining the propriety of future expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

BIRDSBORO UNION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Failure to Maintain Surety (Fidelity) Bond Coverage

Condition: The relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118. The relief association's Surety (Fidelity) bond policy was in the name of the former relief association, Friendship Fire Company No. 1 Volunteer Firefighters' Relief Association. The Friendship Fire Company No. 1 Volunteer Firefighters' Relief Association dissolved on August 19, 2010 and all assets of the Friendship Fire Company No. 1 Volunteer Firefighters' Relief Association were transferred to the Birdsboro Union Volunteer Firefighters' Relief Association.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(4) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Cause: Relief association officials were unaware that the Surety (Fidelity) bond policy was in the name of the former relief association.

Effect: As a result of the authorized disbursing officer of the relief association not being bonded, the relief association's cash assets were not safeguarded.

However, subsequent to the audit period, on June 21, 2012, the relief association obtained a Surety (Fidelity) bond in an amount greater than the Birdsboro Union Volunteer Firefighters' Relief Association's maximum cash balance, as required by Act 118. In addition, the Surety (Fidelity) bond was issued in the name of the disbursing officer of the Birdsboro Union Volunteer Firefighters' Relief Association.

Recommendation: We recommend that the relief association maintain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required by Act 118. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

BIRDSBORO UNION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD MARCH 22, 2010 TO DECEMBER 31, 2011

Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds.

Furthermore, all expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 10,876
Total Benefit Services	\$ 10,876
Fire Services:	
Equipment purchased	\$ 138,112
Equipment maintenance	5,219
Training expenses	7,317
Fire prevention materials	2,591
Total Fire Services	\$ 153,239
Administrative Services:	
Miscellaneous administrative expenses	\$ 4,903
Total Administrative Services	\$ 4,903



BIRDSBORO UNION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Birdsboro Union Volunteer Firefighters' Relief Association Governing Body:

Mr. Steven Dragon, President

Mr. Barry Katzin, Vice President

Ms. Tara Miluszewski, Secretary

Mr. Kenneth Long, Treasurer

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report.

Mr. Aaron Durso, Secretary
Birdsboro Borough

Ms. Carol R. Lewis, Secretary
Union Township

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.